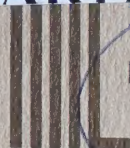
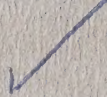


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microsystems international limited

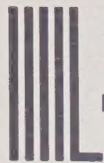
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annual report 1969

to shareholders

During the year 1969, your Company was created and organized by Northern Electric Company, Limited. Since the end of the year, you have joined 34,000 other individuals and institutions, who now own nearly 40% of Microsystems International. We are taking this opportunity to introduce you to the Company and to provide you with background information, as well as the Company's financial results for the year ended December 31, 1969. This Annual Report, together with an information circular for the Annual Meeting to be held in Ottawa, Canada, on May 28, 1970, is carried in a folder which will serve as a file for any other information which we may provide during this year, such as a record of the proceedings of the Annual Meeting and quarterly reports.

The Directors and Officers of the Company are extremely pleased at the confidence that your investment represents, and are happy to have such widespread interest in this new international venture.

background

The parent company's interest in semi-conductor devices dates back 18 years, when the possible substitutions of such devices for electro-mechanical functions in the telecommunications industry became apparent. During this time, research and development work and pilot line production were undertaken in order to introduce such components into telephone switching and transmission equipment. All of this culminated in 1965 in the establishment of the Advanced Devices Center in Ottawa, which was devoted to the research, development and manufacture of such devices as transistors, diodes and varistors. Because each of these products performs a single electrical function —

such as controlling, switching or restricting flow of electrical currents — they are called “discrete” devices. The Advanced Devices Center thus was the “in house” facility for discrete devices.

In the '60's, a new technology called Integrated Circuits appeared in the industry. These circuits provided on a single small silicon chip a number of the functions performed by transistors and diodes, with the necessary inter-connection to form a complete circuit. Recognizing the potential importance of this technology, Northern Electric began some research and development on these new products and started to produce them in small quantities.

In 1968, Northern Electric began a feasibility study, to determine how it might develop the skills and capability to utilize this technology and to manufacture the components required in its growing business. The study indicated that in order to establish an economic manufacturing facility, a larger volume of demand was necessary than that provided by “in house” requirements. Simultaneously, the Federal Government, recognizing the need for high technology manufacturing plants and particularly in the fast-growing field of integrated circuits, was considering ways and means of establishing a viable microcircuit manufacturing business in Canada. The government, through the Department of Industry, Trade and Commerce, concluded that Northern Electric's advanced technology was a suitable base on which to build such an enterprise. After receiving agreement of assistance from the government through its regular program of financial assistance for new industrial development, it was decided early in 1969 to form a separate company. Microsystems International Limited was established to devote its energy and resources primarily to the development, production and sale of integrated circuits on an inter-

national basis and continue to supply the parent company with its requirements for semi-conductor products.

corporate matters

The rapid creation of a new medium size company, and the building of a solid foundation for the future, required the execution of a number of corporate arrangements. In summary, these included the following: the incorporation of the Company on March 11, 1969, under federal charter; the acquisition from Northern Electric of the Advanced Devices Center facilities in exchange for 2,600,000 shares and 430,000 warrants, the latter to be distributed to Northern Electric's debentureholders in exchange for release from borrowing restrictions applicable to its subsidiary companies; the signing of three major contracts with the government for loans and conditional grants totalling \$47.9 million; the establishment of corporate headquarters in Montreal; and finally, early in 1970, the public subscription for two million shares of the Company's stock at an issue price of \$10.00 per share and the undertaking by Northern Electric to purchase an additional 1,950,000 shares in the period ending December 31, 1973.

financial results

Sales of \$5.8 million during the nine months of operation in 1969 represented sales of discrete devices to Northern Electric. The Net Loss of \$3.3 million for the period, however, resulted entirely from initial expenditures related to the establishment of the integrated circuit business.

In view of a change from discrete devices to integrated circuits and because of Northern Electric's diminishing demands for equipment which uses a large number of discrete devices, this business can only be considered a declining

one. In 1969, a major decline did occur and severe cost-saving measures had to be taken to maintain that business at break-even point.

Financial plans for integrated circuits in the early years involve major outlays for Research and Development, new manufacturing facilities with their related start-up expenses and the establishment of a world-wide marketing organization. A total of \$12.5 million was spent for these purposes and related administrative and financing costs in 1969. \$4 million of this was reimbursed to the Company through Government of Canada grants. Expenditures on plant and production facilities of \$5.2 million were allocated to Capital Accounts and the remaining \$3.3 million was written off in 1969 in accordance with generally accepted accounting principles, even though such items represent an investment in the future of the integrated circuit business.

Despite tight money conditions in 1969, the Company was able to meet its cash needs through utilization of its bank line of credit and an advance of \$4.5 million from the parent company, the latter having been converted to Capital Stock in 1970. Funds received from the public issuance of shares in January 1970, the subscription for additional shares by Northern Electric and our bank line of credit are expected to provide adequate financing for the foreseeable future.

accomplishments

The research, development and manufacturing building in Ottawa was enlarged from 170,000 to 306,000 sq. ft. and additional space was leased in both Ottawa and Montreal to accommodate projected space needs over the next few years.

Equipment for the No. 1 silicon integrated circuit line was ordered and was being installed at year end. It is now undergoing preproduction trials.

Sophisticated facilities for mask making were ordered also during the year.

A comprehensive study on our Management Information Systems needs was completed, and towards year end, a UNIVAC 1106 computer was placed on order for delivery in the third quarter of 1970.

Research and development activities resulted in substantial progress in new technologies which will place your Company in the forefront of integrated circuit manufacturers. Examples are: the Beam Lead process which will provide a more economical way of making circuit connections and the Tantalum Thin Film process, which will make possible complex circuits on a common substrate suitable for telecommunications applications.

The basic organization for an international marketing effort was established during the year with offices opened in London, England; Brussels, Belgium; Stuttgart, Germany; Montreal and Ottawa, Canada; and Palo Alto, United States. Agencies arrangements were made with individuals or firms in Vancouver, Canada; San Francisco, U.S.; and Tokyo, Japan. Senior marketing staff were acquired with experience in the industry and this staff is being added to as rapidly as capable people are available and as the demand for market development work increases.

employees

The employee population increased during the year to 863. Our employees are engaged in a wide variety of demanding jobs, many of which require special technical and mechanical skills. We are most fortunate that they have displayed understanding and enthusiasm during the uncertain period of start-up of the new enterprise.

A comprehensive benefit and pension program was introduced in 1970 for all employees and was widely accepted throughout the Company.

On behalf of the Board,

A. O. Wolff,
President.

balance sheet as at december 31, 1969

assets

Current assets

Cash	\$ 46,917	
Accounts receivable (Note 1)	4,197,397	
Inventories (Note 2)	2,762,552	
Prepaid expenses	43,445	\$ 7,050,311

Fixed assets (Notes 3 and 8)

Plant and equipment	15,119,368	
Less: Canadian Government grants	939,224	
	14,180,144	
Less: Accumulated depreciation	3,758,922	
	10,421,222	
Plant under construction	2,477,342	12,898,564

\$19,948,875

On behalf of the Board

V. O. Marquez, Director

A. O. Wolff, Director

liabilities

Current liabilities

Bank indebtedness	\$3,109,744	
Accounts payable and accrued liabilities (Note 4)	3,561,434	\$ 6,671,178
Loan payable (Notes 5 and 8)		858,838
Deferred income taxes (Notes 3 and 9)		2,274,000
Advance from parent company (Note 6)		4,500,000

shareholders' equity

Capital stock (Notes 6 and 7)

Authorized – 8,000,000 common shares without nominal or par value		
Issued – 2,600,009 common shares	6,944,967	
Contributed surplus (Note 3)	1,979,676	
Deficit (Note 9)	(3,279,784)	5,644,859
		\$19,948,875

auditors' report

The Shareholders,
Microsystems International Limited

We have examined the balance sheet of Microsystems International Limited as at December 31, 1969 and the statements of earnings and deficit and source and application of funds for the period from the date of commencement of business, April 1, 1969, to December 31, 1969. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1969 and the results of its operations for the period then ended, in accordance with generally accepted accounting principles.

Touche Ross & Co.
Chartered Accountants.

Montreal, Que.
February 11, 1970.

statement of earnings and deficit
for the period from the date of commencement of business,
april 1, 1969, to december 31, 1969

Sales*			\$5,881,777
Cost of sales**			5,380,884
Gross profit on sales			500,893
Expenses:			
Administrative and general***	\$ 836,290		
Marketing	319,012		
Interest	153,990		
	1,309,292		
Research and development	\$3,419,630		
Preproduction	2,112,157		
	5,531,787		
Less: Canadian Government grants (Note 8)	3,060,402	2,471,385	3,780,677
Net loss for the period and deficit as at December 31, 1969 (Note 9)			\$3,279,784

* Substantially all to Northern Electric Company, Limited.

** Includes depreciation of \$596,595.

*** Includes directors' remuneration of \$63,775 including salaries to directors who are also officers of the company.

statement of source and application of funds
for the period from the date of commencement of business,
april 1, 1969, to december 31, 1969

Source of funds			
Capital stock issued			\$ 6,944,967
Canadian Government loan			858,838
Advance from parent company			4,500,000
			<u>\$12,303,805</u>
Application of funds			
Operations			
Net loss for the period		\$3,279,784	
Less: Depreciation		<u>596,595</u>	\$ 2,683,189
Fixed asset acquisitions			
From Northern Electric Company, Limited (Note 3)		4,020,248	
Other sources	\$6,160,459		
Less: Canadian Government grants	<u>939,224</u>	<u>5,221,235</u>	<u>9,241,483</u>
			<u>\$11,924,672</u>
Working capital as at December 31, 1969			<u>\$ 379,133</u>

notes to financial statements
december 31, 1969

1. accounts receivable:

Accounts receivable include \$3,499,113 from the Canadian Government ("Government") for grants and \$466,881 from Northern Electric Company, Limited ("Northern Electric"), the parent company.

2. inventories:

Inventories are valued at the lower of cost and net realizable value.

3. fixed assets:

Under an agreement dated March 29, 1969, the company acquired fixed assets from Northern Electric at their value for income tax purposes at March 31, 1969 of \$4,020,248. In order that these fixed assets may be reflected in the company's balance sheet in accordance with sound accounting practice, they have been recorded at the values at which they were carried in the books of Northern Electric at March 31, 1969, these values being cost to Northern Electric of \$11,436,251 less accumulated depreciation of \$3,162,327 and deferred income taxes of \$2,274,000 arising from the claiming by Northern Electric of more depreciation for income tax purposes than was charged in its accounts on the fixed assets sold by it to the company. The resulting net increase in the values of the company's fixed assets of \$1,979,676 has been reflected as a contributed surplus.

The company subsequently acquired other fixed assets which are valued at cost, less Government conditional grants of \$912,512 and a grant of \$26,712 under the Industrial Research and Development Incentives Act.

Plant under construction is at cost.

4. accounts payable and accrued liabilities:

Accounts payable include \$1,459,956 due to Northern Electric.

5. loan payable:

The loan payable represents an interest free loan from the Government for the provision of equipment. This loan is repayable in five equal consecutive annual instalments in respect of each equipment package, the first instalment to be paid one year after the date on which the particular equipment package is put to use.

6. capital stock:

The company issued 2,600,000 common shares and will issue 430,000 transferable share purchase warrants, all as consideration for fixed assets (Note 3) and inventories acquired from Northern Electric under an agreement dated March 29, 1969. Each share purchase warrant will entitle the holder to purchase one common share of the company at a price of \$13.50 per share for a period of nine years from the date of the public offering (Note 7). The company has reserved 430,000 common shares for the exercise of the share purchase warrants. In addition, the company issued 9 common shares to the original incorporators at a price of \$10 per share. On January 7, 1970, Northern Electric undertook, subject to completion of the issue and sale of common shares of the company to the public, to subscribe and pay for, over a period ending December 31, 1973, an additional 1,950,000 common shares of the company at a price of \$10 per share. As at December 31, 1969, Northern Electric had advanced a total of \$4,500,000 in respect of this undertaking.

7. agreement with underwriters:

On January 7, 1970, the company entered into an agreement with Underwriters for the sale to them of 2,000,000 common shares without nominal or par value for the sum of \$20,000,000.

8. canadian government grants and loan:

The Government conditional grants and loan are governed by agreements executed on July 22, 1969 by the Government and the company under which the Government has undertaken to reimburse the company, on submission and approval of invoices prior to April 1, 1973, (1) by means of a conditional grant not exceeding \$12,000,000 and an interest free loan not exceeding \$12,000,000, for 100% of the cost of the purchase or manufacture by the company of specified equipment, to which the Government will originally hold title, (2) by means of a conditional grant not exceeding \$16,450,000, for 50% of the cost incurred by the company for research and development expenses and (3) by means of a conditional grant not exceeding \$7,500,000, for 50% of the cost incurred by the company for preproduction expenses.

The conditional grant of \$912,512 from the Government for the provision of specified equipment, which has been deducted from the cost of related equipment (Note 3), is repayable, without interest, from the cumulative profits (after deduction of losses) before income taxes in excess of 10% of the cumulative sales of all products except discrete components.

The conditional grants from the Government of \$1,700,388 for research and development expenses and \$1,056,085 for preproduction expenses have been deducted from the related expenses and are repayable on the same basis as the conditional grant for specified equipment.

The order of repayment of these conditional grants is (1) those for research and development expenses, (2) those for preproduction expenses and (3) those for specified equipment.

9. income taxes:

As at December 31, 1969, the company had a loss for income tax purposes approximating the net loss for the period from the date of commencement of business, April 1, 1969, to December 31, 1969.

This tax loss is available to be applied against taxable income of the next five years as stipulated in the Income Tax Act. This potential income tax benefit has not been recognized in the financial statements as the date of its utilization cannot as yet be determined.

10. know-how and other technology:

Under an agreement dated August 1, 1969, Northern Electric transferred free to the company its know-how, technology, research and development information and records relating to products and processes in respect of its semi-conductive apparatus and thin film devices.

11. commitments for additions to plant and equipment:

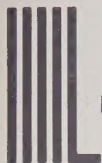
As at December 31, 1969, there were outstanding commitments of \$2,740,100.

12. long-term leases

Material contractual obligations in respect of long-term leases of the company amount to \$2,550,507. Related rentals incurred for the period ended December 31, 1969 amounted to \$173,513 and the minimum amount applicable to the five years subsequent to December 31, 1969 is \$1,497,041.

13. employee pension plan:

The company intends to have a pension plan which will be available to all its employees. Currently, the company's employees participate in the Northern Electric Pension Plan to which the company contributes on their behalf. An actuarial valuation of the Northern Electric Pension Plan is currently being carried out and it is not possible at this time to determine the amount of the net assets to be transferred from the Northern Electric Pension Plan to the company pension plan or to estimate the company's portion of the unfunded liability in respect of its employees.



microsystems international limited

board of directors

A. JAMROZ

V. O. MARQUEZ, President, Northern Electric Company, Limited

R. C. SCRIVENER, President, Bell Canada

A. O. WOLFF

executive management

officers

V. O. MARQUEZ, Chairman of the Board

A. O. WOLFF, President

A. JAMROZ, Vice-President and General Manager

H. R. ARMSTRONG, Vice-President and Treasurer

C. R. MARCHAND, Secretary and Corporate Solicitor

T. R. HORNBLY, Assistant Treasurer

senior management

J. M. BEDDOES, Technical Director, Ottawa

E. G. HANINGTON, Planning Director, Montreal

R. J. S. HOPE, Manager, Ottawa Centre, Ottawa

T. N. PARROTT, Manager, Personnel Administration, Ottawa

P. G. TURNER, Executive Assistant to the President, Montreal

J. DARCY, Marketing Director, Canada, Montreal

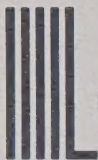
G. DELANEY, Marketing Director, Europe, Brussels

H. F. SCHUNK, Marketing Director, United States, Palo Alto

P. GRIFFIN, Program Manager, Discrete Devices, Ottawa

E. R. HICKS, Program Manager, Silicon Microcircuits, Ottawa

P. R. TILLMAN, Program Manager, Hybrid Microcircuits, Ottawa



microsystems international limited

head office

800 Dorchester Boulevard West, Montreal, Quebec

research, development and manufacturing centre

75 Moodie Drive, Ottawa, Ontario

service centre

475 Richmond Road, Ottawa, Ontario

marketing offices

Montreal: 800 Dorchester Blvd. West

Ottawa: 75 Moodie Drive

Toronto: Toronto-Dominion Centre, Suite 1400, Room 21, 55 King Street West

Palo Alto, Cal., U.S.A.: 560 San Antonio Road

Union, N.J., U.S.A.: 2401 Morris Avenue

Brussels, Belgium: 5 Place du Champ de Mars

London, England: 1 Great Cumberland Place

Stuttgart, Germany: Microsystems International GmbH, Hohenheimerstrasse 9

transfer agent and registrar

Montreal Trust Company in:

Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver

listing of stock

Montreal Stock Exchange and The Toronto Stock Exchange

auditors

Touche Ross & Co., Chartered Accountants, Montreal, Quebec

*Les actionnaires qui préféreraient recevoir ce rapport annuel en français
n'ont qu'à en aviser le Secrétaire de la Cie Internationale des Microsystèmes Ltée.*